

CORPORATE GOVERNANCE

Hong Leong Asia Ltd. ("**HLA**" or the "**Company**") is committed to maintaining good corporate governance and business integrity in all its business activities, which is essential for the long-term sustainability of the Group's businesses and the enhancement of shareholders' value.

HLA has been placed on the SGX Fast Track programme since April 2018. This programme was launched by Singapore Exchange Regulation ("**SGX RegCo**") in recognition of listed companies which have maintained good corporate governance standing and compliance track record. Companies under this programme will receive prioritised clearance on selected corporate action submissions to SGX RegCo.

The Company has complied with Rule 710 of the Listing Manual of Singapore Exchange Securities Trading Limited ("**SGX-ST**") ("**Listing Manual**") by describing in this report its corporate governance practices with specific reference to the principles and provisions in the Code of Corporate Governance 2018 ("**2018 Code**"). Where the Company's practices differ from the principles and guidelines under the 2018 Code, the Company's position and reasons in respect of the same are explained in this report.

The Group's listed subsidiaries, China Yuchai International Limited ("**CYI**") and its listed subsidiary HL Global Enterprises Limited ("**HLGE**"), are listed on the New York Stock Exchange and the Singapore Exchange respectively. The independent boards and board committees of these listed subsidiaries are responsible to uphold good corporate governance and oversee the effectiveness of their internal controls and risk management systems. Further information on the governance regime, corporate governance practices, and the assurances on the adequacy/effectiveness of the internal controls and risk management systems of these listed subsidiaries can be found in their respective annual report and/or annual report on Form 20F filing.

BOARD OF DIRECTORS

Executive Directors

Mr Kwek Leng Peck, Executive Chairman

Mr Stephen Ho Kiam Kong, Executive Director and Chief Executive Officer

Independent Directors

Mr Ernest Colin Lee, Lead Independent Director

Ms Kwong Ka Lo @ Caroline Kwong

Mr Ng Sey Ming

Mr Tan Chian Khong

KEY OBJECTIVES

Provides leadership by setting the strategic objectives of the Company together with the Senior Management team to achieve long-term success for the Company and its subsidiaries (the "**Group**"). Oversees the performance of the Group for accountability to shareholders by ensuring that necessary financial, operation and human resources are in place for the Company to meet its strategic objectives, which are supported by an adequate and effective system of risk management and internal controls.

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Audit and Risk Committee Mr Tan Chian Khong (Chairman)
Mr Ernest Colin Lee
Ms Kwong Ka Lo @ Caroline Kwong
Mr Ng Sey Ming

Key objectives

Assists the Board in the review of the Company's financial reporting, internal accounting controls, audit function, sustainability issues/reports, and key risks under a risk management framework.

Nominating Committee Mr Ernest Colin Lee (Chairman)
Mr Kwek Leng Peck
Ms Kwong Ka Lo @ Caroline Kwong

Key objectives

Assists the Board in its succession plan through the review of board size, composition and skills set and provides recommendations on the independence of directors, appointment, re-nomination and retirement of Directors. Assists the Board in the evaluation of the performance of the Board, the Board Committees and the Directors.

Remuneration Committee Mr Ernest Colin Lee (Chairman)
Mr Ng Sey Ming
Mr Tan Chian Khong

Key objectives

Assists the Board in the review and determination of the remuneration of the Board and the Key Management Personnel ("**KMP**"), including setting appropriate remuneration frameworks and policies to reflect a performance-based remuneration system.

Hong Leong Asia Share Option Scheme 2000 Committee Mr Ernest Colin Lee (Chairman)
Mr Kwek Leng Peck
Mr Ng Sey Ming
Mr Tan Chian Khong

Key objectives

Reviews and approves the grant of options to eligible participants pursuant to the terms of the Company's Share Option Scheme.

BOARD MATTERS

PRINCIPLE 1: THE BOARD'S CONDUCT OF AFFAIRS

The Primary Functions of the Board

The Board oversees the Company's business and its performance under its collective responsibility for the long-term success of the Company, working with the Senior Management to achieve the strategic objectives of the Company.

The Board's primary functions are to provide leadership, set broad policies, provide guidance on and approve strategic objectives, ensure that necessary financial, operational and human resources are in place for the Company to meet its objectives, review the performance of the Company and its subsidiaries (the "**Group**") and Management's performance, and satisfy itself as to the adequacy and effectiveness of the framework and processes for internal controls (including financial, operational, compliance and information technology ("**IT**") controls)

and risk management for the safeguarding of shareholders' interests and the Group's assets. The Board assumes responsibility for good corporate governance and sets the Company's corporate values and ethical standards through the Company's policies with a view to ensuring that its obligations to shareholders and stakeholders are clearly understood and met.

Sustainability

The Board is committed to the Company's strategic approach to integrating sustainability in its business and operations, and to advance the Company's sustainability efforts and achievements. In this regard, the Board has delegated to the Audit and Risk Committee ("**ARC**") the general oversight on sustainability issues and sustainability reporting. Since 2017, the Company published its annual Sustainability Reports which met SGX-ST's sustainability reporting requirements. The Sustainability Committee comprising representatives from the Group's key business units is responsible for identifying, evaluating, monitoring and managing the Group's material environmental, social and governance ("**ESG**") factors, and reports to the ARC. Details on the Company's sustainability practices are presented in the Sustainability Report on pages 28 to 52 of this Annual Report 2020 ("**AR**").

Directors' Objective Discharge of Duties and Declaration of Interests (Provision 1.1)

All Directors, being fiduciaries, are required to objectively discharge their duties and responsibilities in the interests of the Company. This ability to exercise objectivity is one of the assessment criteria in the Nominating Committee's ("**NC**") annual evaluation of the Directors.

Directors who are in any way, directly or indirectly, interested in a transaction or proposed transaction, declare the nature of their interests in accordance with the provisions of the Companies Act, Chapter 50, and in the case of any conflicts of interests, abstain from participating in the deliberation and decision-making on such transactions, with abstention duly recorded in the minutes and/or the resolutions of the Board and/or the committees established by the Board.

Accountability of the Board and Management (Provision 1.1)

The Board and Senior Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. The Company has established various corporate policies as necessary which provide a communicable and understandable framework for staff to observe the Company's principles on honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of the Company's business in their relationships with the Company's stakeholders, including customers, suppliers and employees. Further details of these policies are described in the segment entitled 'Corporate Values and Conduct of Business' at the end of this report.

Board Orientation and Training (Provision 1.2)

Every newly appointed Director receives a formal letter, setting out his general duties and obligations as a Director pursuant to the relevant legislations and regulations. The new Director will also receive an induction pack containing information and documents relating to the role, duties and responsibilities of a director and a member of the Board Committees, the Group's principal businesses, the Company's Board processes, corporate governance practices, relevant company policies and procedures as well as a Board and the Board Committees meeting calendar for the year with a brief of the routine agenda for each meeting.

The Company also conducts a comprehensive induction programme for newly appointed Directors and for existing Directors pursuant to their appointments to any of the Board Committees, which seeks to familiarise Directors with the Group's principal businesses, the Company's board processes, internal controls and governance practices, and in the case of appointments to any of the Board Committees, the role and areas of responsibilities of such Board Committees. The induction programme includes meetings with various key executives of the Management to allow the new Directors to be acquainted with the Management team and to facilitate their independent access to the Management team in future. The programme also includes site visits to the Group's key operations and briefings by the Management team on key areas of the Group's operations.

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Mr Stephen Ho was appointed to the Board and as CEO-Designate on 3 August 2020. He was given update by key Management on the Group's business and operations including an overview of the organizational structure, key internal controls, roles and responsibilities of the various departments, and given a Directors' manual by the Company Secretary which includes, *inter alia*, the Company's internal corporate governance practices, and directors' duties and responsibilities pursuant to the relevant legislation.

For a first time Director who has no prior experience as a director of a listed company, in addition to the induction as detailed above, he or she will be required to also attend certain specific modules of the Listed Entity Director ("LED") Programme conducted by the Singapore Institute of Directors ("SID") in order to acquire relevant knowledge of what is expected of a listed company director, this being a mandatory requirement under the Listing Manual. Completion of the LED Programme, which focuses on comprehensive training of company directors on compliance, regulatory and corporate governance matters, should provide the first time Director with a broad understanding of the roles and responsibilities of a director of a listed company under the requirements of the Companies Act, Chapter 50, the Listing Manual and the 2018 Code. Mr Stephen Ho, being a first time Director of a listed company in Singapore, had completed the full modules of the LED Programme.

The Directors are also provided with updates and/or briefings from time to time by professional advisers, auditors, Management and the Company Secretaries in areas such as directors' duties and responsibilities, corporate governance practices, relevant legislations and regulations, risk management and financial reporting standards. The Directors are regularly kept informed by the Company Secretaries of the availability of appropriate courses, conferences and seminars such as those conducted by the SID, and the Directors are encouraged to attend such training at the Company's expense. The NC and the Board are kept informed of the trainings attended by the Directors during the year. As part of the NC's annual assessment of the skills set of the Board and the Board Committees, the NC would also recommend further training for the Directors in specific areas, if so required, to supplement the regular updates/briefings provided to the Directors from time to time.

Three in-house seminars/webinars were conducted by invited external speakers in 2020, on the following topics:

- (a) Emerging Technology: Innovation, Future of Work and Cyber;
- (b) Geopolitical Risk Landscape; and
- (c) ESG Integration: A Pathway to Business Resilience

The ARC members were also provided with regular briefings from the Company's external auditors on applicable Accounting Standards updates during the year.

All the Board members attended various training webinars, seminars and workshops in 2020 which accounted for more than 200 training hours in aggregate.

In addition to the training courses/programs and briefing updates, Directors are also at liberty to approach Management should they require any further information or clarification concerning the Group's operations.

Board Approval (Provision 1.3)

The Board has in place an internal guide wherein certain key matters are specifically reserved for approval by the Board and these include the decisions over the strategic direction and policies of the Group and its financial objectives which have or may have material impact on the profitability or performance of the relevant business units; decisions to commence, discontinue or modify significantly any business activity or to enter into or withdraw from a particular market sector; corporate or financial restructuring; decisions over new borrowings or significant amendments to the terms and conditions of existing borrowings other than in the ordinary course of business; material acquisition and disposal of assets/business undertakings; adoption of key corporate policies and any other matters which require Board approval as prescribed under the relevant legislations and regulations as well as the provisions of the Company's Constitution. Management is fully apprised of such matters.

Delegation by the Board (Provision 1.4)

The primary functions of the Board are either carried out directly by the Board or through committees established by the Board, namely, the ARC, the NC, the Remuneration Committee ("**RC**"), and the Hong Leong Asia Share Option Scheme 2000 ("**SOS**") Committee ("**SOSC**"), all collectively referred to hereafter as the Board Committees.

Specific written terms of reference for each of these Board Committees set out the required composition, authority and responsibilities of the Board Committees and provide for each Board Committee to submit at least an annual report of its activities to the Board. All terms of reference for the Board Committees are approved by the Board and reviewed periodically to ensure their continued relevance taking into consideration the changes in the governance and legal environment.

The delegation of authority by the Board to the Board Committees enables the Board to achieve operational efficiency by empowering these Board Committees to decide, review and make recommendations on matters within their respective written terms of reference and/or limits of delegated authority, without abdicating the Board's overall responsibility.

Please refer to the sections on Principles 4, 5, 6, 7, 9 and 10 in this report for further information on the activities of the ARC, NC and RC. Information on the activities of the SOSC is set out in the Directors' Statement on pages 88 to 91 and the Financial Statements on pages 189 to 192 of the AR.

Board and Board Committees (Provision 1.5)

Meetings of the Board and Board Committees are held regularly, with the Board meetings no less than four times a year. At the regular quarterly Board meetings, the agenda includes updates by the Senior Management on the performance and operations of each business unit of the Group, and the Group's periodic financial performance. Four Board meetings were held in 2020.

During the year, the Lead Independent Director ("**Lead ID**") held discussions with non-executive Directors ("**NEDs**") who are all also the independent Directors ("**IDs**") of the Company, without the presence of Management, as and when necessary.

The proposed meetings for the Board and all Board Committees for each new calendar year are set out in a schedule of meetings and notified to all Board members before the start of that calendar year. Additional meetings are convened as and when circumstances warrant. Records of all such meetings including key deliberations and decisions taken are maintained by the Company Secretaries. The Company's Constitution allows for the meetings of its Board and the Board Committees to be held via teleconferencing and video-conferencing. The Board and Board Committees may also make decisions by way of circulating written resolutions.

The attendance (including via electronic means) of the Directors at the annual general meeting of the Company ("**AGM**") and meetings of the Board and the Board Committees as well as the frequency of such meetings in 2020, are disclosed below. Notwithstanding such disclosure, the Board is of the view that the contribution of each Director should not be focused solely on his or her attendance at the AGM and at meetings of the Board and/or the Board Committees. A Director's contribution also extends beyond the confines of the formal environment of such meetings, through the sharing of views, advice, experience and strategic networking relationships which would further the interests of the Group.

The Directors also, whether individually or collectively, engage with the Senior Management/Management team to better understand the challenges faced by the Group and the inputs of the Directors, through such engagement, provide valuable perspective to the Management.

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Directors' Attendance (including via electronic means) at the AGM, and Meetings of the Board and Board Committees in 2020 (Provision 1.5)

Number of meetings held in 2020:	Board	ARC	NC	RC	SOSC	AGM
	4	3	2	2	1	1
Name of Director	Number of meetings attended in 2020					
Kwek Leng Peck	4	N.A.	2	2 ^(a)	1	1
Stephen Ho Kiam Kong ^(b)	2	1 ^(a)	1 ^(a)	N.A.	N.A.	N.A.
Tan Eng Kwee ^(b)	2	2 ^(a)	N.A.	N.A.	N.A.	1
Ernest Colin Lee	4	3	2	2	1	1
Kwong Ka Lo @ Caroline Kwong	4	3	2	2 ^(a)	1 ^(a)	1
Ng Sey Ming	4	3	2 ^(a)	2	1	1
Tan Chian Khong	4	3	2 ^(a)	2	1	1

N.A. – Not applicable

Notes:

(a) Attendance by invitation for all or part of the meeting.

(b) Mr Stephen Ho was appointed as a Director on 3 August 2020 in place of Mr Tan Eng Kwee who resigned from the Board on 16 August 2020.

Directors' Multiple Board Representations and Time Commitments (Provision 1.5)

When considering the re-nomination of Directors for election/re-election, the NC also takes into account the competing time commitments faced by Directors with multiple board representations and/or other principal commitments. An analysis of the directorships (which includes directorships within corporate groups and executive appointments) held by the Directors is reviewed annually by the NC. Each Director is also required to confirm annually to the NC as to whether he or she has any issue with competing time commitments which may impact his or her ability to provide sufficient time and attention to his or her duties as a Director of the Company. Based on the analysis, the Directors' annual confirmation and the Directors' commitments and contributions to the Company which are also evident in their level of attendance and participation at Board and Board Committees' meetings, the NC is satisfied that all Directors are able to carry out and have been adequately carrying out their duties as Directors of the Company.

The NC noted that, excluding the directorship held in the Company, the number of listed company board representations currently held by:

- Mr Tan Chian Khong, the only ID who holds other listed company board representations, is four, and
- each ED, Mr Kwek Leng Peck and Mr Stephen Ho, did not exceed two, all being representations on the boards of related corporations of the Company including one listed subsidiary of the Group.

The Board considers an assessment of the individual Directors' participation as described above to be more effective for the Company than prescribing a numerical limit on the number of listed company directorships that a Director may hold. It would not wish to omit from consideration suitable individuals who, despite the demands on their time, have the capacity to participate and contribute as members of the Board.

In addition to the current procedures for the review of the attendance records and analysis of directorships/principal commitments, a policy has also been put in place for Directors to consult the Board Chairman and the chairman of the NC prior to accepting any new listed company board appointments or principal commitments and notifying the Board of any changes in their external appointments. This would allow the Director to review his or her time commitments with the proposed new appointment and in the case of an ID, to also ensure that his or her independence would not be affected.

Complete, Adequate and Timely Information (Provision 1.6)

Prior to each meeting, members of the Board and the Board Committees are provided with the meeting agenda and the relevant papers submitted by Management, containing where possible and practicable, complete, adequate and timely information such as reports on the operations and financial performances of the various business units respectively, reports from the Risk Committee, Sustainability Committee, internal auditors (“**IA**”) and external auditors (“**EA**”), regulatory updates, and/or significant projects/events updates, to enable full deliberation on the issues to be considered at the respective meetings.

Management also provides all Directors with monthly reports of the Group’s performance including analysis of the same. Any material variances between the results and the budget and year-on-year for the periods under review are explained in the monthly reports.

Management, the Company’s auditors and professional advisers who can provide additional insight into the matters for discussion are also invited from time to time to attend Board and/or Board Committees’ meetings. Directors have separate and independent access to Management.

Draft agendas for Board and Board Committee meetings are circulated to the Board Chairman and the chairmen of the Board Committees respectively, in advance, for them to review and suggest items for the agenda. The Board and the Board Committees are also furnished with routine reports, where applicable, from the various departments of the Company. Each of the chairmen of the ARC, NC, RC and SOSC provides an annual report of the respective committees’ activities during the year under review to the Board. The minutes of meetings of the Board Committees are circulated to all Board members.

Access to Management, Company Secretaries and Independent Professional Advisors (Provision 1.7)

All Directors have direct and independent access to Management. To facilitate this access, all Directors are provided the contact details of the KMP and other senior management team members.

The Directors, whether as a group or individually, are entitled to take independent professional advice at the expense of the Company, in furtherance of their duties and in the event that circumstances warrant the same. The Company has in place internal guidelines allowing the Directors to seek independent professional advice.

The Company Secretaries’ appointment and removal are subject to the Board’s approval. At least one of the Company Secretaries attends all Board and Board Committee meetings and ensures that all Board procedures are followed. The Company Secretaries, together with Management, also ensure that the Company complies with applicable statutory and regulatory rules. Together with Management, the Company Secretaries also advise the Board Chairman, the Board and the Board Committees on corporate governance matters and assist to implement and strengthen corporate governance practices and processes, including ensuring adequate and timely information flows within the Board and the Board Committees and between the Directors and Management, facilitating the induction for newly appointed Directors and newly appointed Board Committee members, and assisting in the continuing training and development programmes for the Directors. On an ongoing basis, the Directors have separate and independent access to the Company Secretaries.

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PRINCIPLE 2: BOARD COMPOSITION AND GUIDANCE

Board Independence (Provisions 2.1, 2.2 and 2.3)

The Board currently comprises six members, two of whom are executive Directors, while the other four members of the Board are NEDs. The NC has determined all four NEDs, being more than half of the Board, to be independent (“4 IDs”), thus providing for a strong and independent element on the Board capable of exercising objective judgment on the corporate affairs of the Company. No individual or small group of individuals dominates the Board’s decision making. The Board concurred with the NC’s determination of the independence of the 4 IDs, namely, Mr Ernest Colin Lee, Ms Caroline Kwong, Mr Ng Sey Ming and Mr Tan Chian Khong. No alternate Directors have been appointed in respect of any of the Directors.

When reviewing the independence of the 4 IDs, the NC has considered the applicable Rule 210(5)(d) of the Listing Manual and the guidelines for independence set out in Provision 2.1 of the 2018 Code. As part of the consideration, the NC also took into account their other directorships, declaration regarding their independence, disclosure of interest in transactions in which they have a direct/indirect interest (if any), their ability to avoid any apparent conflicts of interests especially by abstaining from deliberation and decision-making on such transactions, and their ability to maintain objectivity in their conduct as Directors of the Company.

In accordance with Rule 210(5)(d) of the Listing Manual, none of the 4 IDs are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations. None of the 4 IDs have immediate family members who are currently employed or have been employed at any time during the past three financial years by the Company or any of its related corporations, and whose remuneration is determined by the RC. For purposes of determining independence, the 4 IDs have also provided confirmation that they are not related to the Directors and substantial shareholders of the Company. The NC is satisfied that there is no other relationship which could affect their independence. The Board concurred with the NC’s determination of the independence of the 4 IDs. Each of the 4 IDs abstained from deliberation of their own independence.

Mr Ng Sey Ming, an ID, is a partner of a legal firm, Rajah & Tann Singapore LLP (“R&T”) (with less than 5% stake) which rendered professional legal services to the Group from time to time. The amount of the fees paid to R&T for FY 2020 was more than \$200,000, which was largely for the legal services rendered by R&T to the following wholly-owned subsidiaries of the Company - (i) HL Granite Resources Pte. Ltd. for the acquisition of assets relating to its quarry operations, and (ii) HL Cement (Malaysia) Sdn. Bhd. and Ridge Star Limited in relation to their unconditional voluntary take-over offer for Tasek Corporation Berhad. Mr Ng had abstained from the deliberation and decision-making in the engagement of R&T as solicitors for these transactions. The NC has determined, and the Board has concurred, that Mr Ng’s independence is not affected by this relationship of the Group with R&T.

Of the 4 IDs, only Mr Ernest Colin Lee has served on the Board for more than nine years since his appointment to the Board on 3 April 2000. The Board members had individually provided their views on the independence of Mr Lee by taking into consideration factors such as whether he has expressed his individual viewpoints and debated issues constructively during meetings of the Board and Board Committees, whether he has constructively challenged and sought clarification from Management as and when necessary and whether he has avoided apparent conflicts of interest by abstaining from deliberation on matters in which he has an interest in. Having considered the feedback from the individual Board members, Mr Lee’s other directorships, annual declaration regarding his independence, and his ability to maintain objectivity in his conduct as Director of the Company, the Board (with Mr Lee abstaining in respect of the deliberation of his own independence) has determined him to be independent notwithstanding that he has served on the Board beyond nine years as he has continued to demonstrate independence in character and judgment in the discharge of his responsibilities as Director of the Company. The Company has also benefitted from his years of experience in his field of expertise and his extensive knowledge and familiarity with the business of the Group. Mr Lee who is retiring by rotation pursuant to the Company’s Constitution at the 2021 AGM has informed the Board that he would not be seeking re-election as an Independent Non-Executive Director. Upon his cessation as Director after the 2021 AGM, he will also cease to be the Lead ID, the chairman of the NC, RC and SOSOC as well as a member of the ARC of HLA. Please refer to the section ‘Succession Planning for the Board, the Board Chairman and KMP (Provision 4.1)’ on page 65 of this report for information relating to his successors.

The 4 IDs had also avoided apparent conflicts of interests especially by abstaining from deliberation on transactions in which they had a direct/indirect interest, and were able to maintain objectivity in their conduct as Directors of the Company. They have objectively raised issues and sought clarification as and when necessary from the Board, Management and the Group's external advisers on matters pertaining to their area of responsibilities whether on the Board or on the Board Committees.

Board Composition, Size and Diversity (Provision 2.4)

The NC reviews the size and composition mix of the Board and Board Committees annually. At the recommendation of the NC, the Board had adopted in 2018 a formal Board Diversity Policy, setting out its policy and framework for promoting diversity on the Board. The Board recognises that a diverse Board is an important element which will better support the Company's achievement of its strategic objectives for sustainable development by enhancing the decision-making process of the Board through the perspectives derived from the various skills, business experience, industry discipline, gender, age, ethnicity and culture, geographical background and nationalities, tenure of service and other distinguishing qualities of the Directors.

When reviewing and assessing the composition of the Board and making recommendations to the Board for the appointment of Directors, the NC will consider all aspects of diversity to arrive at an optimum balanced composition of the Board, including the NC's recommended target to achieve a level of at least 20% female representation on the Board by 2021. In this regard, the NC will strive to ensure that:

- (a) if external search consultants are used to search for candidates for Board appointments, the brief will include a requirement to pay particular attention to present female candidates;
- (b) when seeking to identify a new Director for appointment to the Board, the NC will request for female candidates to be fielded for consideration;
- (c) female representation on the Board be continually improved over time based on the set objectives of the Board; and
- (d) at least one female Director be appointed to the NC.

The final decision on selection of Directors will be based on merit against an objective criterion that complements and expands the skills and experience of the Board as a whole, and after having given due regard to the overall balance and effectiveness of a diverse Board.

The Board currently comprises business leaders and professionals with financial (including audit and accounting), legal and business management backgrounds. The Board currently includes one female member, Directors with ages ranging from mid-40s to 80 years old, who have served on the Board for different tenures. The members of the Board with their combined business, management and professional experience, knowledge and expertise, provide the core competencies to allow for diverse and objective perspectives on the Group's business and direction. Further information on the individual Directors' background, experience and skills can be found in the 'Board of Directors' section in the AR.

Having considered the scope and nature of the operations of the Group, the Board is satisfied that the current composition mix and size of the Board (and taking into consideration the retirement of Mr Ernest Colin Lee at the 2021 AGM) provide for sufficient diversity and allow for informed and constructive discussion and effective decision making by the Board and Board Committees. The Board will however continue to review opportunities to refresh the Board with a view to expanding the skills, experience and diversity of the Board as a whole. Further information on the individual Directors' background, experience and skills can be found in the 'Board of Directors' section in the AR.

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NEDs' Participation (Provision 2.5)

NEDs are encouraged to participate actively at Board meetings in the development of the Group's strategic plans and direction, and in the review and monitoring of Management's performance against budgets. To facilitate this, they are kept informed of the Group's businesses and performance through monthly and quarterly reports from Management, and have unrestricted access to Management. They also sit on various Board Committees to provide unbiased and independent views, constructive input and the independent review and monitoring of performance of the Group and Management.

During the year, the Lead ID held discussions with NEDs who are all the IDs of the Company, without the presence of Management as and when the need arose. The Lead ID collates the feedback from the NEDs and communicates the same to the Board and/or the Board Chairman as appropriate.

PRINCIPLE 3: CHAIRMAN AND CHIEF EXECUTIVE OFFICER ("CEO")

Roles of Chairman and the CEO (Provisions 3.1 and 3.2)

The roles of Chairman of the Board and the CEO are separate to ensure a clear division of responsibilities and increased accountability.

Mr Kwek Leng Peck, the Executive Chairman of the Board ("**Board Chairman**") plays an instrumental role in providing the Company with strong leadership and vision, assisting the Board to develop policies and strategies, and ensuring that these are implemented effectively. As the Board Chairman, with written terms of reference approved by the Board, Mr Kwek bears primary responsibility for the workings of the Board, by ensuring effectiveness in all aspects of its role including setting agenda for Board meetings with inputs from Management, ensuring that sufficient time is allocated for discussion of each agenda item at Board meetings, promoting an open environment within the Boardroom for constructive debate, encouraging the NEDs to speak freely and contribute effectively, and exercising control over the quality, quantity and timeliness of information flow between the Board and Management. As the Board Chairman, he also promotes and leads the Company in its commitment to achieve and maintain good corporate governance. At AGMs and other shareholder meetings, he plays a pivotal role in fostering constructive dialogue between shareholders, the Board and Management. As the Executive Chairman, he is the most senior executive in the Company and bears overall executive responsibility for the Group's business. He is assisted by the CEO, Mr Stephen Ho and other members of the senior management team which comprises:

- Mr Ponnu Jeyasingam, Chief Operating Officer (Building Materials Unit)
- Mr Hoh Weng Ming, President (Diesel Engines Unit, China Yuchai International Limited)
- Mr Lian Ka Siew, Group Chief Operating Officer (Tasek Corporation Berhad)
- Mr Raymond Lim Nguang Seng, General Manager (Air-Conditioning Systems Unit/Rigid Packaging Unit)
- Mr Kwek Ken Wee, General Manager (Group HR)

Mr Stephen Ho joined the Company on 3 August 2020 as the CEO-Designate pending the former CEO, Mr Tan Eng Kwee's departure from the Company on 16 August 2020 to allow for a smooth transition in the role of the CEO. Mr Ho assumes the CEO responsibilities in full with effect from 17 August 2020.

The CEO who is a key management staff, bears executive responsibility for the performance of the Group and the achievement of the corporate goals set for the Group. There is a clear division of responsibilities between the Board Chairman and the CEO. The CEO is not related to the Board Chairman.

The Board considered Mr Kwek Leng Peck's role as an executive Board Chairman, the written terms of reference for the Board Chairman approved by the Board, and the strengths he brings to such a role by virtue of his in-depth knowledge of the Group's business. Through the appointment of Lead ID and the establishment of various Board Committees with power and authority to perform key functions without the undue influence from the Board Chairman, and the putting in place of internal controls for proper accountability and to allow for effective oversight by the Board of the Group's business, the Board ensures there is appropriate balance of power which allows the Board to exercise objective decision making in the interests of the Company. The Board is of the view that Mr Kwek's role as an executive Board Chairman would facilitate the Group's decision making and implementation process.

Lead Independent Director (Provision 3.3)

In view that the Board Chairman is not an ID, the Board has appointed Mr Ernest Colin Lee as Lead ID on 26 February 2013 to serve as a sounding board for the Board Chairman and as an intermediary between the NEDs and the Board Chairman. The role of the Lead ID is set out under the written terms of reference of the Lead ID, which has been approved by the Board. The Lead ID is available to shareholders where they have concerns and for which contact through the normal communication channels with the Board Chairman or the key Management are inappropriate or inadequate. No query or request on any matter which requires the Lead ID's attention was received from the shareholders in 2020. With the cessation of Mr Ernest Colin Lee as a Director following the conclusion of the 2021 AGM, he will cease to be the Lead ID and Mr Tan Chian Khong has been appointed to succeed him as the Lead ID.

During the year, the Lead ID held discussions with the NEDs who are all also the IDs of the Company, as and when the need arose without the presence of Management or the Board Chairman, and the views expressed by the NEDs were communicated by the Lead ID to the Board Chairman and the Management, as appropriate.

PRINCIPLE 4: BOARD MEMBERSHIP

NC Composition and Role (Provisions 4.1 and 4.2)

Two out of the three members of the NC are independent. The NC chairman is also the Lead ID. Please refer to the 'Corporate Directory' section on page 23 of the AR, for the composition of the NC. With the cessation of Mr Ernest Colin Lee as a Director following the conclusion of the 2021 AGM, he will also cease to be the NC chairman and Ms Caroline Kwong, an existing member of the NC, has been appointed to succeed him as the NC chairman. In compliance with the NC's term of reference to have at least three NC members, with the majority being IDs, Mr Tan Chian Khong has been appointed as a new member of the NC following the conclusion of the 2021 AGM.

The NC's responsibilities as set out in its written terms of reference, approved by the Board, are to examine the Board size, review all Board and Board Committees composition and membership, board succession plans for the Directors (including the Board Chairman) and the KMP, determine each Director's independence annually and as and when circumstances require, evaluate performance of the Board as a whole, its Board Committees and the individual Directors, review appointments and re-appointments of Directors (including alternate directors, if any) and the reasons for resignations of Directors, review appointments and the reasons for resignations and terminations of the Executive Chairman and the KMP which includes the CEO and the Chief Financial Officer ("**CFO**"), review and confirm the induction programme for newly appointed Directors and for existing Directors in respect of their appointments to any of the Board Committees, and review the training and continuous professional development programme for the Directors. Two NC meetings were held in 2020. The Company Secretaries maintain records of all NC meetings including records of key deliberations and decisions taken.

For the financial year under review, the NC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("**NC Self-Assessment Checklist**").

The NC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the NC under its terms of reference, and considered also the contribution of NC members to the deliberation and decision-making process at NC meetings.

Based on the self-assessment, the NC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

CORPORATE GOVERNANCE

Re-nomination of Directors and Determination of Independence (Provisions 4.3 and 4.4)

The NC reviews annually the nomination of the relevant Directors for election/re-election as well as the independence of Directors. When considering the nomination of Directors for election/re-election, the NC takes into account their contribution to the effectiveness of the Board (which include their participations and candour at Board and Board Committees' meetings) as well as their time commitment especially for Directors who have multiple listed company board representations and/or other principal commitments, and also reviews their independence having regard to the provisions in the applicable Rule 210(5)(d) of the Listing Manual and the guidelines for independence set out in Provision 2.1 of the 2018 Code. The recommendation of the NC on the annual nomination of the Directors for election/re-election is submitted to the Board for decision and thereafter put to the shareholders for approval at the AGM.

The Constitution of the Company provides that not less than one-third of the Directors for the time being shall retire as Directors at each AGM of the Company. All new Directors appointed by the Board shall hold office until the next AGM, and be eligible for election at the said AGM. Excluding the new Directors who are seeking appointment at the AGM or who will be seeking election at the first AGM immediately after their initial appointment, the remaining Directors of the Company will retire about once in every two to three years.

In accordance with the Company's Constitution, Mr Ernest Colin Lee and Mr Tan Chian Khong will be retiring by way of rotation while Mr Stephen Ho who was appointed by the Board on 3 August 2020, will also be retiring, at the 2021 AGM. Other than Mr Lee who will not be seeking re-election, the other retiring Directors being eligible, have offered themselves for election/re-election at the 2021 AGM. The NC has considered Mr Tan's contribution and performance, and Mr Ho's wealth of experience in finance, treasury, risk management, sales and marketing, and recommended to the Board to nominate their re-election/election at the 2021 AGM. Detailed information on the Directors who are proposed to be elected/re-elected at the 2021 AGM can be found under the sections on 'Board of Directors' and 'Additional Information on Directors Seeking Election/Re-election' of the AR.

Criteria and Process for Nomination and Selection of New Directors (Provision 4.3)

The NC interviews shortlisted candidates before formally considering and recommending them for appointment to the Board and where applicable, to the Board Committees. Searches for and selection of candidates to be considered for appointment as Directors is facilitated through recommendations from the Directors, Management or external parties including the Company's contacts in the related industries, finance, legal and accounting professions. Assistance may also be obtained from SID and professional executive search firms engaged to source for suitable candidates for the NC's consideration.

Shortlisted candidates would be required to furnish their curriculum vitae containing information on their academic/professional qualification, work experience, employment history and experience (if any) as directors of listed companies.

In reviewing and recommending to the Board any new Director appointments, the NC considers:

- (a) the candidate's track record, experience and capabilities or such other factors including age and gender, as may be determined by the NC to be relevant and which would contribute to the Board's collective skills;
- (b) any competing time commitments if the candidate has multiple listed company board representations and/or other principal commitments;
- (c) the candidate's independence, in the case of the appointment of an independent NED; and
- (d) the composition requirements for the Board and Board Committees after matching the candidate's skill set to the requirement of the relevant Board Committees (if the candidate is proposed to be appointed to any of the Board Committees).

The NC had recommended the appointment of Mr Stephen Ho as a Director and CEO of the Company taking into consideration his wealth of experience in finance, treasury, risk management, as well as sales and marketing and having worked in companies with operations in Asia-Pacific. As recommended by the NC, on 22 July 2020, the Board approved the appointment of Mr Ho as a Director and CEO of the Company. Pending the departure of Mr Tan Eng Kwee from the Company on 16 August 2020, Mr Ho joined the Company as CEO-Designate on 3 August 2020 to allow for a smooth transition in the role of the CEO, which responsibilities he assumed in full with effect from 17 August 2020.

Key Information on Directors (Provision 4.5)

Please refer to the 'Board of Directors' section in the AR for key information on the Directors, including the date of their first appointment and last election/re-election to the Board (if applicable), their academic/professional qualification, directorships held in listed companies and principal commitments for both current and in the preceding three years, and other relevant information, in the notice of AGM, and additional information for Directors proposed for election/re-election at the 2021 AGM.

Succession Planning for the Board, the Board Chairman and KMP (Provision 4.1)

The Board believes in carrying out succession planning for itself, the Board Chairman and the Senior Management team to ensure continuity of leadership. Board renewal is a continuing process and in this regard, the NC reviews annually the composition of the Board and Board Committees, which includes size and mix, and recommends to the Board the selection and appointment of new Directors, whether in addition to existing Board members or as replacement of retiring Board members, with a view to identifying any gaps in the Board's skills sets taking into account the Group's business operations. The Board will be able to function smoothly notwithstanding any resignation or retirement of any Director given the present number of members and mix of competencies on the Board. The NC also conducts annual review on the succession planning to ensure continuity of leadership for the Group's senior management.

Mr Ernest Colin Lee who is due for retirement by rotation at the 2021 AGM will not be seeking re-election as a Director. Upon his cessation as a Director after the AGM, he will also cease to be the Lead ID, the chairman of the NC, RC and SOSC as well as a member of the ARC of the Company. As part of the succession planning, the NC and the Board have identified the following Directors to succeed Mr Lee in his various Board/Board Committee appointments following his retirement at the 2021 AGM:

- Mr Tan Chian Khong as the Lead ID;
- Ms Kwong Ka Lo @ Caroline Kwong as the chairman of the NC; and
- Mr Ng Sey Ming as the chairman of the RC and SOSC.

The NC and the Board have also identified the following Directors for appointment as new Board Committee members following Mr Lee's retirement at the 2021 AGM in compliance with the respective Board Committees' terms of reference relating to the committee composition and size:

- Mr Tan Chian Khong as a new member of the NC; and
- Ms Kwong Ka Lo @ Caroline Kwong as a new member of the RC and SOSC.

On 16 July 2020, the Board announced the resignation of Mr Tan Eng Kwee as a Director and CEO of the Company, and his effective date of departure on 16 August 2020. Subsequently on 22 July 2020, the Board announced the appointment of Mr Stephen Ho as a Director and CEO of the Company, having considered his wealth of experience in finance, treasury, risk management as well as sales and marketing and having worked in companies with operations in Asia-Pacific and particularly China. Pending Mr Tan's departure, Mr Ho joined the Company as the CEO-Designate on 3 August 2020 to allow for a smooth transition and continuity of leadership at the Senior Management level. He assumed full responsibilities as the CEO of the Company on 17 August 2020.

CORPORATE GOVERNANCE

In February 2020, Ms Leong Sook Han resigned as the CFO of the Company. The Company is currently considering the suitability of internal potential successors and external candidates for appointment as CFO to succeed Ms Leong and will make the necessary announcement in due course.

Board Development (Provision 4.5)

The NC reviews the training and development of the Directors to ensure that Directors receive appropriate development on a continuing basis, to perform their roles on the Board and where applicable, the Board Committees. The Directors are provided with updates and/or briefings to assist them to properly discharge their duties. The briefings are conducted either internally with invited speakers, or externally, at the Company's expense. Further training for the Directors in specific areas are also being recommended by the NC, where required, based on the NC's review of the annual evaluation checklists from the Board and the Board Committees. A separate programme is established for new Directors, details of which are set out in the paragraph above under the subject heading "Board Orientation and Training".

The Board is kept apprised twice yearly on the list of training programmes attended by the Directors during the year.

PRINCIPLE 5: BOARD PERFORMANCE

Board Evaluation Process (Provision 5.1)

The Company has in place a formal process for assessment of the effectiveness of the Board as a whole, the various Board Committees and the contribution by each Director to the effectiveness of the Board and the Board Committees, where applicable. No external facilitator has been used. The NC assesses the Board's performance as a whole annually using objective and appropriate criteria which were recommended by the NC and approved by the Board. When assessing the overall Board performance, the NC takes into consideration the Board composition, the Directors' independence, feedback from individual Directors on areas relating to the Board's role on strategy and performance, the Board's process, governance (including oversight on risk management and internal controls) and the effectiveness of the Board Chairman. The results of the overall evaluation of the Board by the NC including its recommendations, if any, for improvements are presented to the Board.

The NC also undertook an evaluation of the performance of the NC, RC and ARC with the assistance of self-assessment checklists completed by these Board Committees as well as a report provided by the chairman of the SOSOC.

The annual evaluation process for the Board Chairman's and the individual Director's performance comprises two parts: (a) review of background information concerning the Directors including their attendance records at Board and Board Committee meetings; and (b) NC's evaluation based on certain assessment parameters, which were recommended by the NC and approved by the Board.

When deliberating on the performance of a particular Director who is also a member of the NC, that member abstains from the discussions in order to avoid any conflict of interests.

The results of the individual evaluation of the Directors are also used by the NC, in its consultation with the Board Chairman (who is also a member of the NC), to review, where appropriate, the composition of the Board and Board Committees, and to support its proposals, if any, for appointment of new members and its recommendations for the election/re-election of retiring Directors. Comments from the Directors, if any, concerning the Board as a whole and the general performance of the Directors, are also presented to the Board.

Board Evaluation Criteria (Provision 5.2)

The qualitative criteria used by the NC to evaluate the Board covers six key areas relating to Board composition, Directors' independence, the Board's review of the Company's strategy and performance, the Board's oversight on the Company's governance including risk management and internal controls, and the effectiveness of the Board Chairman and Board processes.

The quantitative criteria used to evaluate the overall Board performance comprise periodic performance indicators which include a comparison of the Group's performance (including segmental performance) for the financial period under review against the Group's performance for the corresponding period in preceding year and the budget, and also other indicators such as the Company's share price performance over a historical period.

Individual Director Evaluation Criteria (Provision 5.2)

Factors taken into account in the assessment of a Director's performance include his or her abilities and competencies, his or her objectivity and the level of participation at Board and, where applicable, Board Committees' meetings including his or her contributions to Board processes and the business strategies and performance of the Group. The performance evaluation of each Director is taken into account in the NC's consideration with regard to his or her re-election as a Director.

REMUNERATION MATTERS

PRINCIPLE 6: PROCEDURES FOR DEVELOPING REMUNERATION POLICIES

RC Composition and Role (Provisions 6.1, 6.2, 6.3 and 6.4)

The RC comprises three NEDs, all of whom including the chairman of the RC are independent. With the cessation of Mr Ernest Colin Lee as a Director following the conclusion of the 2021 AGM, he will also cease to be the RC chairman and Mr Ng Sey Ming, an existing member of the RC, has been appointed to succeed him as the RC chairman. In compliance with the RC's term of reference to have at least three RC members, all of whom shall be NEDs with the majority being IDs, Ms Caroline Kwong has been appointed as a new member of the RC following the conclusion of the 2021 AGM.

The RC's principal responsibilities as set out in its written terms of reference approved by the Board are to review and recommend, for the endorsement of the Board, a framework of remuneration and the specific remuneration packages for each Board member and the Company's KMP.

The Company has in place a remuneration framework for the Directors and the KMP. The Company currently identifies its Executive Chairman, the CEO and the CFO as its KMP. On an annual basis, the RC reviews and recommends the specific remuneration packages for the Directors and the KMP including the annual increments, mid-year and year-end variable bonuses, special bonus, if any, and share options for the KMP for the Board approval. The RC also considers the KMP's contracts of service to ensure that they do not contain any unfair or unreasonable termination clauses.

All the members of the RC also sit on the SOSC and the chairman of the RC is also the chairman of the SOSC. With the cessation of Mr Ernest Colin Lee as a Director following the conclusion of the 2021 AGM, he will also cease to be the RC and SOSC chairman. Mr Ng Sey Ming, an existing member of these committees, has been appointed to succeed him as the RC and SOSC chairman. In compliance with the RC's and SOSC's terms of reference to have at least three members each, all of whom shall be NEDs with the majority being IDs, Ms Caroline Kwong has been appointed as a new member of the RC and SOSC following the conclusion of the 2021 AGM.

The RC has access to appropriate advice from the Head of HR, who attends all RC and SOSC meetings. There being no specific necessity, the RC did not seek expert advice from external remuneration consultants in 2020.

The Company Secretaries maintain records of all RC and SOSC meetings including records of key deliberations and decisions taken. Two meetings of the RC and a meeting of SOSC were convened during 2020.

For the financial year under review, the RC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("**RC Self-Assessment Checklist**"). The RC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the RC under its terms of reference, and considered also the contribution of RC members to the deliberation and decision-making process at RC meetings.

CORPORATE GOVERNANCE

Based on the self-assessment, the RC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

PRINCIPLE 7: LEVEL AND MIX OF REMUNERATION

Remuneration of Directors and KMP (Provisions 7.1, 7.2 and 7.3)

The Company's remuneration policy for Directors comprises the following distinct objectives:

- to ensure that the procedure for determining remuneration for Directors is formal and transparent;
- to ensure that the level of remuneration is sufficient (without being excessive) to attract and retain Directors to exercise oversight responsibility over the Company; and
- to ensure that no Director is involved in deciding on his/her own remuneration.

In reviewing the remuneration packages of the Executive Chairman and the KMP, the RC, with the assistance of the Head of HR, considers the level of remuneration based on the Company's remuneration policy which comprises the following three distinct objectives:

- to ensure that the remuneration packages are competitive in attracting and retaining employees capable of meeting the Company's needs;
- to reward employees for achieving corporate and individual performance targets in a fair and equitable way; and
- to ensure that the remuneration reflects employees' duties and responsibilities.

The Company advocates a performance-based remuneration system that is flexible and responsive to the market, and the performance of the Group's business units and individual employees. In designing the compensation structure, the Company seeks to ensure that the level and mix of remuneration are competitive, relevant and appropriate in finding a balance between the current and longer-term objectives of the Company.

Based on the Remuneration Framework, the compensation packages for the KMP comprise a fixed component (in the form of a base salary, annual wage supplement, and where applicable fixed allowances determined by the Company's Human Resource policies), a variable component (comprising short-term incentives in the form of mid-year and year-end variable bonuses, and special bonus, and long-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, where applicable. The variable components take into account amongst other factors, the KMP's performance, the Group's performance, the business unit's performance and industry practices. The Company exercises broad discretion and independent judgment in ensuring that the amount and mix of compensation are aligned with the interests of shareholders and promote the long-term success of the Company.

The mix of fix and variable reward is considered appropriate for the Group and for each individual role. The overall level of remuneration is not considered to be at a level which is likely to promote behaviour contrary to the Group's risk profile. The compensation structure is directly linked to corporate and individual performance, both in terms of financial, nonfinancial performance and the creation of shareholder wealth.

The Company currently has in place a long-term incentive scheme, which is the SOS. KMP who have a greater ability to influence the Group's outcomes have a greater proportion of overall reward at risk. It is put in place to increase the Group's flexibility and effectiveness in its continuing efforts to reward, retain and motivate key good employees to achieve superior performance and to motivate them to continue to strive for the Group's long-term shareholder value. It also aims to strengthen the Group's competitiveness in attracting and retaining talented key management employees. The Company does not require the EDs and KMP to continue to hold their shares upon exercise of the options after the vesting period. Options granted under the SOS to EDs and KMP vest progressively over a period of three years. To-date, the Company has granted only Market Price Options and Incentive Price Options (both as defined in the SOS). Information on the SOS is set out in the Directors' Statement on pages 88 to 91 and the Financial Statements on pages 189 to 192 of the AR.

The SOS was first approved by the shareholders at an extraordinary general meeting in 2000 for an initial period of ten years commencing on 30 December 2000. It was extended at the AGM in April 2010 for a further period of ten years from 30 December 2010 to 29 December 2020. At the AGM held in June 2020, the shareholders approved the second extension of the duration of the SOS for another period of ten years from 30 December 2020 to 29 December 2030.

The Company does not discourage Directors from holding shares in the Company. There is however no requirement under the Company's Constitution for Directors to hold shares in order to be qualified to act as a Director. The NEDs are eligible to participate in the SOS. The grant of options under the SOS to the NEDs is subject to the SOSC's recommendation and the Board's endorsement.

The letter of offer of options to eligible participants (including EDs and KMP) under the SOS includes a claw-back provision which gives the Company the right to recover or cancel the options (whether in whole or in part, before they are exercised) in the event of exceptional circumstances involving a misstatement of the financial results of the Company and the Hong Leong Asia Group for the financial year on which the grant is based, or any misconduct by an employee of the Company, resulting in financial loss to the Group.

When reviewing the structure and level of Directors' fees, which comprise base director's fee and additional fees for services rendered under the various Board Committees, the RC takes into consideration the Directors' respective roles and responsibilities in the Board and Board Committees and the changes in the business, corporate governance practices and regulatory rules. The RC also compared the Company's fee structure against industry practices. Other factors taken into consideration in the fee review includes the frequency of Board and Board Committee meetings, corporate performance for the financial year under review as well as the corporate and economic outlook in the new financial year, and the interval since the last fee review and changes. The RC is mindful that the remuneration for IDs should not be excessive so as to compromise or reasonably be perceived to compromise their independence. No Director is involved in deciding his or her own remuneration.

Each of the Directors receives a base Director's fee with the Executive Chairman receiving an additional fee for serving as the Board Chairman. The Lead ID also receives an additional fee to reflect his expanded responsibility. Directors who serve on the various Board Committees (other than the SOSC) also receive additional fees in respect of each Board Committee that they serve on, with the chairmen of the Board Committees receiving a higher fee in respect of their service as chairman of the respective committees.

The structure of fees paid or payable to Directors of the Company for FY 2020 is as follows:

Appointment	Fees per annum (\$)
Board of Directors	50,000 (Base fee)
	Additional Fees:
Board Chairman	20,000
Audit and Risk Committee (ARC)	
- ARC Chairman	58,000
- ARC Member	38,000
Nominating Committee (NC)	
- NC Chairman	18,000
- NC Member	12,000
Remuneration Committee (RC)	
- RC Chairman	18,000
- RC Member	12,000
Lead Independent Director	10,000

CORPORATE GOVERNANCE

PRINCIPLE 8: DISCLOSURE OF REMUNERATION

Disclosure of Remuneration (Provisions 8.1(a) and 8.3)

The compensation packages for employees including the Executive Chairman and the KMP comprise a fixed component (in the form of a base salary and fixed allowances), a variable component (comprising short-term incentives in the form of mid-year and year-end variable bonuses, and special bonus, if any, and longer-term incentives in the form of the grant of share options subject to a vesting schedule) and benefits-in-kind, where applicable, taking into account amongst other factors, the individual's performance, the Group's performance, the business unit's performance and industry practices. During the year, there were no termination, retirement and post-employment benefits granted to any Director or KMP.

The Company's remuneration policies, level and mix of remuneration, as well as the link between the remuneration paid to Directors and the KMP, and performance are as set out under Principle 7 above.

Information on the SOS is set out under Principle 7 above and in the Directors' Statement on pages 88 to 91 and the Financial Statements on pages 189 to 192 of the AR.

Directors' Remuneration for FY 2020 (Provision 8.1(a))

The remuneration of each Director including a breakdown (in percentage terms) earned through base salary, variable bonuses/allowances, fees, share option grants and other benefits for FY 2020 is set out below:

	Total Remuneration (nearest thousand) \$'000	Base Salary ⁽¹⁾ %	Variable Bonuses/ Allowances ⁽¹⁾ %	Board/ Board Committee Fees ⁽²⁾ %	Share Option Grants ⁽³⁾ %	Other Benefits %	Total %
Executive Directors							
Kwek Leng Peck ⁽⁴⁾ (Executive Chairman)	1,245	40.7	38.1	16.0	0	5.2	100
Stephen Ho Kiam Kong ^(4 & 5) (CEO)	490	47.5	32.2	8.8	0	11.5	100
Tan Eng Kwee ^(3, 4 & 6) (former CEO)	574	65.1	5.6	21.2	3.1	5.0	100
Non-executive Directors							
Ernest Colin Lee	134	0	0	100	0	0	100
Kwong Ka Lo @ Caroline Kwong	100	0	0	100	0	0	100
Ng Sey Ming	100	0	0	100	0	0	100
Tan Chian Khong	120	0	0	100	0	0	100

Notes:

- (1) The salary and variable bonuses/allowances paid/payable are inclusive of employer's central provident fund contributions.
- (2) These fees comprise Board and Board Committee fees (excluding ARC fees) for FY 2020, which are subject to approval by shareholders as a lump sum at the 2021 AGM, and the ARC fees for FY 2020 that had already been approved by shareholders at the 2020 AGM.
- (3) This relates to options granted during FY 2019. The fair value of the options as at the date of grant ranges from \$0.14 to \$0.17 for each share under option taking into account the vesting schedule using the Black-Scholes Option Pricing Formula.
- (4) Remuneration of these Directors includes remuneration paid or payable by subsidiary(ies) of the Company.
- (5) Mr Stephen Ho was appointed a Director and the CEO-Designate on 3 August 2020 and the Board fee payable to him for FY 2020 is pro-rated accordingly. He assumed full responsibilities as the CEO on 17 August 2020 after Mr Tan Eng Kwee's departure from the Company.
- (6) Mr Tan Eng Kwee resigned as a Director and the CEO of the Company on 16 August 2020 and the Board fee payable to him for FY 2020 is pro-rated accordingly.

Remuneration of KMP (not being a Director or CEO) for FY 2020 (Provisions 8.1(b) and 8.3)

The Board does not believe it to be in the interest of the Company to disclose the FY 2020 remuneration of its former CFO, Ms Leong Sook Han, being identified as the only Company's KMP (not being a Director), having regard to the highly competitive human resource environment.

Remuneration of Director's, CEO's or Substantial Shareholder's Immediate Family Members for FY 2020 (Provision 8.2)

During FY 2020, Ms Kwek Pei Xuan, a daughter of Mr Kwek Leng Peck, the Executive Chairman, is an employee of the Company whose annual remuneration falls within the remuneration band of S\$200,000 and below. There were no other employees of the Company who were substantial shareholders of the Company or were immediate family members of a Director, the CEO or a substantial shareholder of the Company.

PRINCIPLE 9: RISK MANAGEMENT AND INTERNAL CONTROLS**Risk Management (Provision 9.1)**

The Group's approach to risk management is to proactively identify, evaluate and manage significant risks inherent in the business to facilitate a balanced, responsible and informed risk taking. Risk management activities are aligned to the Group's strategic objectives and priorities while protecting the interest of the Board and shareholders.

An Enterprise Risk Management ("ERM") framework has been established by Management to formalise and document the internal processes to enable significant strategic, financial, operational, compliance and IT risks within the relevant Group companies to be identified, assessed, monitored, managed and evaluated. The Board determines the Group's levels of risk tolerance and risk policies, and oversees management in the design, implementation and monitoring of the risk management and internal control systems. Strong emphasis is placed on creating risk awareness, promoting accountability and setting the appropriate tone at the top. Risk management training is conducted to communicate and enhance the Group's risk culture.

A risk management oversight and reporting structure has been established to enable the management team to effectively carry out their roles and responsibilities under the ERM framework. The risk committees (consisting of cross functional personnel), at both corporate and business unit levels, implement and maintain risk management policies and initiatives across the Group. The risk management processes at the key business units are driven by their respective risk committees, with regular reporting to the corporate risk committee (comprising members of senior management and headed by the CEO), who in turn reports to the ARC. The key steps in the risk management process are risk identification, risk assessment, risk treatment and risk monitoring. On an ongoing basis, Management reviews the Group's business operations to identify key risk areas and risk mitigating strategies so as to ensure that risks are adequately managed within the Group's risk tolerance limits.

Reports on risk management issues are presented by the ERM Manager to the ARC on a regular basis. The IA's role includes independent review of the Group's risk management policies and systems.

CORPORATE GOVERNANCE

A summary of the Group's top risks and risk mitigation plans is set out below:

No.	Risk Category	Risk Name	Risk Description	Risk Mitigation Plans
1	Operational	Business continuity planning (Global/ Country wide)	Ability to handle major global / country wide disruption and resume operations within the optimum timeframe and minimise losses.	<ul style="list-style-type: none"> Maintain sufficient debt headroom and cash runway to sustain the Group's businesses over prolonged period of disruption affecting all companies. IT disaster recovery plan and remote work arrangement capabilities are in place. However, the Group may not be able to resume full business operations, within a short duration of time after a major global / country wide disruption, due to the lack of fully equipped sites (hot sites). Safe management measures are implemented at workplaces.
2	Strategic	Concentration risk - China	Majority of the Group's businesses are based in China.	<ul style="list-style-type: none"> Regular review of business strategies and performance of business units in China. Evaluate new investments opportunities in other geographical regions besides China, when the opportunities arise.
3	Strategic	Change in government policies	The Group is affected by changes in government policies in the countries and markets that it operates in. The ability to respond effectively and adapt its business strategies to changes in government policies and regulation is crucial to the Group's performance.	<ul style="list-style-type: none"> Stay updated on new and potential changes in government policies. Assess impact of policy changes and review business strategies where necessary. Monitor market conditions and key external indicators which may affect the Group's businesses.
4	Strategic and Operational	Margin pressure risk	Keen market competition resulting in increased margin pressure for the Group's businesses.	<ul style="list-style-type: none"> Review of product and operational costs. Monitor competitors' pricing and continue to strengthen quality and service level to meet customers' requirements. Develop new sales strategies and implement marketing activities to maintain price advantage.

No.	Risk Category	Risk Name	Risk Description	Risk Mitigation Plans
5	Operational	Land and permit risk	Some of the Group's businesses are subject to strict land controls and land use regulation, and dependent on operating permits issued by the authorities.	<ul style="list-style-type: none"> • Work closely with authorities to stay updated on new government regulations, policies and changes in political landscape which may affect land use decisions. • Review strategies and land requirements, and formulate long term plan for land acquisitions. • Ensure compliance with regulations to obtain permits and licenses for business continuity.
6	Strategic	Portfolio and investment risk	Balancing risks and returns in making investments decisions and maintaining an appropriate investment mix for the Group.	<ul style="list-style-type: none"> • Perform due diligence work to identify risks and assist management in making informed decisions on investment proposals. Major investment proposals are tabled and approved by the Board of Directors.

Internal Controls

The Directors recognise that they have overall responsibility to ensure proper financial reporting for the Group and the adequacy and effectiveness of the Group's system of internal controls including financial, operational, compliance and IT controls, and risk management policies and systems. The Group's separately listed subsidiaries, namely CYI and its listed subsidiary HLGE, have separate boards and audit and risk committees which are responsible for the oversight of their respective groups' internal control and risk management systems and the ARC relied on the board of directors and the various board committees of these listed subsidiaries to provide oversight on the adoption and implementation of appropriate corporate governance practices, internal control and risk management systems. These listed subsidiaries, which operate under the governance regime of their respective stock exchanges, provide the relevant assurances on the effectiveness and adequacy of their internal controls and risk management systems in their respective annual reports.

The internal controls structure of the Group has been designed and put in place by management of the Group's business units to provide reasonable assurance against material financial misstatements or loss, for the safeguarding of assets, for the maintenance of proper accounting records, for the provision of financial and other information with integrity, reliability and relevance, and in compliance with applicable laws and regulations. However, no internal controls system can provide absolute assurance in view of inherent limitations of any internal controls system against the occurrence of human and system errors, poor judgment in decision-making, losses, fraud or other irregularities.

CORPORATE GOVERNANCE

Assurances from the KMP (Provision 9.2)

Written assurance was received from the Executive Chairman, the CEO, both being also identified as the Company's KMP, and the Deputy CFO (in the absence of the CFO), not being identified as the Company's KMP, that:

- (i) the Group's financial records have been properly maintained and the financial statements give a true and fair view of the Group's operations and finances; and
- (ii) the system of internal controls and risk management systems in place are adequate and effective to address in all material respects the financial, operational, compliance and IT risks within the current scope of the Group's business operations.

The written assurance provided by the Executive Chairman, the CEO and the Deputy CFO on the proper maintenance of financial records so as to give a true and fair view of their operations and finances and the Group's risk management and internal controls systems are supported by written assurances provided by the senior management team of the Group's listed subsidiaries/key business units.

The ARC reviewed the adequacy and effectiveness of the Group's key internal controls that address the Group's financial, operational, compliance and IT controls, and risk management systems, with the assistance of the IA and EA and Management, who provide regular reports during the year to the ARC in addition to the briefings and updates provided at the ARC meetings. The management action plans are initiated to address the deficiencies identified by IA and EA, especially in the Group's China operations.

Based on the work performed by IA and the risk committees during the financial year, as well as the statutory audit by the EA, Ernst & Young LLP ("EY"), and the written assurance from the Executive Chairman, the CEO and the Deputy CFO, the Board, with the concurrence of the ARC, is of the opinion that the system of internal controls and risk management systems in place as at 31 December 2020 are adequate and effective to address in all material aspects the financial, operational, compliance and IT risks within the current scope of the Group's business operations.

The Board wishes to highlight that the majority of the Group's businesses are located in China, which is a challenging control environment to operate in.

The Board noted that CYI, a subsidiary listed on the New York Stock Exchange, had in its FY 2019 annual report filing on Form 20F on 30 April 2020, disclosed that its Independent Public Accountants, EY, had concluded in their opinion, that CYI maintained, in all material respects, effective internal control over financial reporting as of 31 December 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

As of the date of this report, CYI is still in the process of evaluating its internal controls over financial reporting. The SOX program will be subject to final review by the auditors, and is currently on-going. To date, CYI's management has not received any report on material weaknesses from its auditors. The full results will not be known until the finalization of CYI's FY 2020 annual report filing on Form 20F in mid April 2021.

As part of internal audit program for FY 2020, audit findings identified control weaknesses at some of the Group's subsidiaries. Management action plans based on IA's recommendations were developed to address these weaknesses. EY, during the audit of the financial statements of the Group, have also identified certain deficiencies in internal controls, which have been reported to the ARC and are currently in the process of being rectified by Management. Management has assessed and determined that the deficiencies do not have significant financial impact on the financial statements of the Group for FY 2020.

Management will continue to review and strengthen the Group's control environment, and further refine its internal policies and procedures. Management continues to devote resources and expertise towards improving the level of governance and internal controls.

PRINCIPLE 10: AUDIT AND RISK COMMITTEE

Composition of ARC (Provisions 10.2 and 10.3)

The ARC comprises four NEDs, all of whom including the chairman of the ARC are independent. Three members including the ARC chairman, namely Mr Tan Chian Khong, Mr Ernest Colin Lee and Ms Caroline Kwong possess the relevant audit, accounting or related financial management expertise and experience whilst the remaining member, Mr Ng Sey Ming possesses a legal background. With the cessation of Mr Lee as a Director following the conclusion of the 2021 AGM, he will also cease to be a member of the ARC.

Based on the terms of reference of the ARC, a former partner or director of the Company's existing external auditing firm or corporation ("**EA**") should not act as a member of the ARC: (a) within a period of two years commencing on the date of his or her ceasing to be a partner or director of the EA; and (b) in any case for as long as he or she has any financial interest in the EA. Mr Tan Chian Khong had ceased to be a partner of EY, the EA of the Company, in June 2016 and has no financial interest in EY. Besides Mr Tan, none of the remaining ARC members were former partners or directors of or have any financial interest in the Company's existing EA. Please refer to the 'Board of Directors' section in the AR for the academic/professional qualification and experience of the members of the ARC.

With the current composition and taking into consideration the retirement of Mr Lee at the 2021 AGM, the ARC believes that it has the relevant accounting or related financial management expertise and experience to discharge its functions within its written terms of reference which has been approved by the Board.

Powers and Duties of the ARC (Provision 10.1)

The ARC is authorised by the Board to review or investigate any matters it deems appropriate within its terms of reference and has direct and unrestricted access to the EA, the IA, Management and any officer and employee of the Group. It may invite any Director, Management, any officer or employee of the Group, the EA and IA to attend its meetings. It is also authorised to engage any firm of accountants, lawyers or other professionals as it sees fit to provide independent counsel and advice to assist in the review or investigation on such matters within its terms of reference as it deems appropriate, at the Company's expense.

The principal responsibility of the ARC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the adequacy and effectiveness of the Group's financial reporting process (including reviewing the accounting policies and practices of the Company and the Group on a consolidated basis) and key internal controls, including financial, operational, compliance, IT and risk management controls. Other duties within its written terms of reference include:

- to review significant financial reporting issues and judgements so as to ensure the integrity of the Company's and the Group's financial statements, and of announcements on the Company's and the Group's financial performance and recommend changes, if any, to the Board;
- to review the adequacy and effectiveness of the Group's risk management and internal controls including financial, operational, compliance and IT controls and report to the Board;
- to assess the role and effectiveness of the IA function in the overall context of the Group's risk management and internal control systems;
- to review annually the scope and results of the external audit and the independence and objectivity of the EA, and in this regard to also review the nature and extent of any non-audit services provided by the EA to the Group;
- to make recommendations to the Board on the nomination for the appointment, re-appointment and/or removal of the EA, and to approve the remuneration and terms of engagement of the EA;
- to review interested person transactions ("**IPTs**") to ensure that they are entered on normal commercial terms and are not prejudicial to the interests of the Company or its minority shareholders;

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- to oversee the establishment and operation of the whistle-blowing process in the Group;
- to provide oversight of the risk management framework for the purpose of guiding and providing direction to build up risk management capability within the Group; and
- to provide oversight on the Group's compliance relating to sustainability governance and reporting including reviewing the framework put in place by Management for the identification, assessment, management and monitoring of the material ESG factors, and setting of the targets and key performance indicators for the achievement of the Group's sustainability strategy.

The ARC held three meetings during the year and carried out its duties as set out within its terms of reference. For details of the activities performed by the ARC during the year, please refer to the 'Directors' Statement' section on page 93 of the AR. The Company Secretaries maintain records of all ARC meetings including records of key deliberations and decisions taken. The ARC meets with the IA and EA, each separately without the presence of Management, at least once annually.

The ARC members continually keep themselves abreast of changes to accounting standards and issues which have a direct impact on financial statements.

For the financial year under review, the ARC conducted a self-assessment of its own effectiveness in the discharge of its roles and responsibilities, which was facilitated through the use of a self-assessment checklist ("**ARC Self-Assessment Checklist**").

The ARC Self-Assessment Checklist covered, *inter alia*, the responsibilities of the ARC under its terms of reference, and also considered the contribution of ARC members to the ARC's deliberation and decision-making process.

Based on the self-assessment, the ARC believes that it has fulfilled its responsibilities and discharged its duties as set out in its terms of reference.

ARC's Commentary on significant financial reporting matters

In the review of the financial statements for the FY 2020, the ARC had discussed with both the Management and the EA the accounting principles that were applied and their judgement of items that might affect the integrity of the financial statements. The following significant matters impacting the financial statements were discussed with Management and the EA:

Significant Matters	How did the ARC address these matters
Impairment of property, plant and equipment	<p>The ARC received reports from the Management on the assessment of the recoverable amounts of property, plant and equipment.</p> <p>The ARC had discussed with the Management and the external auditors and assessed the indicators of impairment and also reviewed the appropriateness of the valuation methodologies and reasonableness of the key assumptions used in determining the fair value of the property, plant and equipment.</p>
Capitalisation of development costs	<p>The ARC reviewed the significant assumptions and estimates used by Management in the capitalisation of development expenditure.</p> <p>The ARC noted that about 84% of the intangible assets relates to development expenditure capitalised by CYI. From discussion with Management, the ARC noted that CYI obtained an understanding from management on the recognition criteria and basis for capitalisation and performed an assessment of the appropriateness of development expenditure capitalised in accordance with CYI's R&D capitalisation policy.</p>

The above significant matters were also areas of focus for EA who have included these as key audit matters in their audit report set out in this AR.

External Auditors (Provisions 10.1(d) and 10.1(e))

Taking cognizance that the EA should be free from any business or other relationships with the Group that could materially interfere with their ability to act with integrity and objectivity, the ARC undertook a review of the independence of EY and gave careful consideration to the Group's relationships with them during 2020. In determining the independence of EY, the ARC reviewed the Group's relationships with them and considered the nature and volume of the provision of the non-audit services in 2020 and the corresponding fees. The ARC is of the opinion that the nature and amount of such non-audit services and fees, which had not exceeded 50% of the aggregate audit fees paid/payable to EY in 2020, did not impair or threaten the audit independence. EY's confirmation of their audit independence was further noted. Based on the review, the ARC is of the opinion that EY is, and is perceived to be, independent for the purpose of the Group's statutory financial audit. For details of the fees paid and/or payable by the Group to EY in respect of audit and non-audit services for FY 2020, please refer to note 25 of the Notes to the Financial Statements on page 184.

In reviewing the nomination of EY for re-appointment for the financial year ending 31 December 2021, the ARC had considered the adequacy of the resources, experience and competence of EY, and had taken into account the Audit Quality Indicators relating to the experience of the engagement partner and key team members' experience in handling the audit of multi-listed entities under different jurisdictions. The size and complexity of the audit of the Group, the level of audit fee, and the number and experience of the supervisory and professional staff assigned were taken into account. The ARC had also considered the audit team's ability to work in a co-operative manner with Management whilst maintaining integrity and objectivity and to deliver their services professionally and within agreed time-lines.

EY has confirmed that they are registered with the Accounting and Corporate Regulatory Authority. The Company is thus in compliance with Rule 712 and Rule 715 (read with Rule 716) of the Listing Manual in relation to the appointment of the Group's auditors.

On the basis of the above, the ARC has recommended to the Board the nomination of EY for re-appointment as EA of the Company at the 2021 AGM.

Interested Person Transactions ("IPTs")

On 30 May 2003, the Company obtained shareholders' approval for the Company, its subsidiaries and its associated companies not listed on SGX-ST or an approved exchange, over which the Company, its subsidiaries and/or interested persons ("IPs") have control, to enter into transactions within the categories of IPTs set out in the Company's circular to shareholders dated 5 May 2003, with such persons within the class or classes of IPs as described in the said circular, provided that such transactions are entered into in accordance with the review procedures set out in the said circular (the "IPT Mandate"). The IPT Mandate was last renewed at the AGM held on 18 June 2020. As such IPTs may occur at any time, and to allow the Group to undertake such transactions in an expeditious manner, shareholders' approval will be sought at the 2021 AGM for the renewal of the IPT Mandate.

The ARC has confirmed that an independent financial adviser's opinion is not required for the renewal of the IPT Mandate as the methods and procedures for determining the transaction prices of the IPTs conducted under the IPT Mandate have not changed since the IPT Mandate was obtained on 30 May 2003, and such methods and procedures continue to be sufficient to ensure that these IPTs will be carried out on normal commercial terms and will not be prejudicial to the interests of the Company and its minority shareholders.

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Particulars of IPTs required to be disclosed under Rule 907 of the Listing Manual are as follows:

Name of IP	Nature of Relationship	Aggregate value of all IPTs in FY 2020 (excluding transactions less than \$100,000 and transactions conducted under the IPT Mandate pursuant to Rule 920)	Aggregate value of all IPTs conducted in FY 2020 under the IPT Mandate pursuant to Rule 920 (excluding transactions less than \$100,000)
		\$'000	\$'000
Associates of Hong Leong Investment Holdings Pte. Ltd. ("HLIH")	HLIH is a controlling shareholder of the Company. Its associates are IPs being associates of a controlling shareholder	<u>Corporate Secretarial Services</u> <ul style="list-style-type: none"> Provision of corporate secretarial services by IP to the Group: 	<u>Construction-related Transaction</u> <ul style="list-style-type: none"> Sales of raw materials by the Group to IPs:
		341	1,748

The above IPTs were carried out on normal commercial terms and were not prejudicial to the interests of the Company and its minority shareholders.

Whistle-blowing Policy (Provision 10.1(f))

HLA has in place a whistle-blowing policy where staff of the Group or other persons can raise in confidence, whether anonymously or otherwise, concerns on possible improprieties in matters relating to accounting, financial reporting or other matters such as improper business conduct, fraud or any unlawful practices without fear of retaliation in any form. The ARC has the responsibility of overseeing this policy which is administered by the Head of IA. Under these procedures, arrangements are in place for independent investigation of such matters raised (where appropriate) and for appropriate follow up action to be taken.

A dedicated whistle-blowing email account at hla999@hla-grp.com has been set up to receive complaints and information from all employees of the Group or other persons in order to facilitate and encourage the reporting of such matters. Details on the dedicated channels of communication (email and postal address) have also been made available on the Company's website and intranet.

The whistle-blowing policy is reviewed by the ARC annually to ensure that it remains current. For more details on the said policy including the procedures for raising concerns, please refer to the Company's website at www.hlasia.com.sg.

Anti-fraud, Anti-bribery and Anti-corruption Policy

HLA has adopted an Anti-fraud, Anti-bribery and Anti-corruption Policy. This policy sets out the responsibilities of the Group functions and business units in observing and upholding the Company's position on fraud, bribery and corruption, and it applies to the Group, its affiliates, agents, consultants, business partners as well as officers and employees of the Group (collectively, the "Employees"). It provides guidance to the Employees on matters relating to the prevention, detection and reporting of fraudulent or corrupt conduct through the Company's whistle-blowing channel. The Anti-fraud, Anti-bribery and Anti-corruption Policy is posted to the Company's website and incorporated into the existing Code of Business Conduct and Ethics which Employees are required to confirm compliance with on a regular basis.

Internal Audit (Provisions 10.4 and 10.5)

The IA function is independent of the activities it audits. The Head of IA's primary reporting line is to the ARC chairman with an administrative line of reporting to the CEO of the Company. The appointment, resignation and dismissal of the Head of IA is reviewed and approved by the ARC. The ARC also provides input on the annual performance appraisal of the Head of IA and the ARC chairman is consulted on all bonus payments and salary adjustments for this position. The ARC meets the Head of IA at least once annually without the presence of Management. The Head of IA has unfettered access to the ARC, the Board and Management as well as the Group's documents, records, and properties except for those under the Group's separately listed subsidiaries.

IA operates within the framework stated in its IA Charter which is approved by the ARC, and reviewed on an annual basis. The standards of the IA Charter are consistent with the International Standards for the Professional Practice of Internal Auditing set by the Institute of Internal Auditors. The Head of IA, Mr Vincent Lo, is a member of the Institute of Internal Auditors of Singapore and the Institute of Singapore Chartered Accountants.

Role and Activities of IA

The primary role of the IA is to assist the Board and the ARC to evaluate the reliability, adequacy and effectiveness of the internal controls and risk management processes of the Group (other than the Group's separately listed subsidiaries which have their own IA functions). IA's coverage extends to the review and testing of controls in areas of key risks which include sales and channels operations, procurement, inventory management, information systems and compliance with company policies and procedures.

The ARC approved the annual IA plan and received regular reports during 2020 on the progress of the audit work under the IA plan. Copies of IA reports are extended to relevant members of Management. IA reports are also provided to the external auditors. Processes are in place such that recommendations raised in IA reports are followed up to ensure that they are dealt with within a reasonable time frame, taking into account the severity and nature of the control weaknesses identified. The ARC is apprised regularly on the implementation by Management of the recommendations of IA.

The Company has a well-established IA function with formal procedures for the IA to report their audit findings to the ARC and to Management. The IA members attend external training programmes to keep abreast of developments. As the Head of IA is a member of the Institute of Internal Auditors of Singapore and Institute of Singapore Chartered Accountants, the team receives regular updates on the latest development of IA policies and practices, accounting pronouncements, risk-based audit information and other audit related knowledge from time to time. The ARC reviewed the effectiveness and adequacy of the IA function including its resources through a review of the IA activities on a regular basis as well as its annual assessment of the IA function. The assessment was facilitated through the use of an evaluation framework modeled on the framework recommended in the Guidebook for Audit Committees in Singapore. The evaluation framework covers IA organisation, resources and continuing training, audit plans, work scope, quality of reports and recommendations, IA Charter and IA internal control assessment. Based on the assessment conducted for 2020, the ARC is satisfied with the quality and effectiveness of the IA function and that the IA function has adequate resources and appropriate independent standing within the Group to perform its functions properly, and the ARC has continually emphasized the importance of ensuring that the IA function is adequately staffed, especially to handle the review and testing of controls in key risk areas in the Group's operations in China. CYI has its own IA team and the other two China operations of the Group are not material.

CORPORATE GOVERNANCE

SHAREHOLDER RIGHTS AND ENGAGEMENT

PRINCIPLE 11: SHAREHOLDER RIGHTS AND CONDUCT OF GENERAL MEETINGS

Being committed to good corporate practices, the Company treats all shareholders fairly and equitably. To facilitate the exercise of shareholders' rights, the Company ensures that all material information relating to the Group and its financial performance is disclosed in an accurate and timely manner via SGXNET.

General Meetings (Provisions 11.1, 11.2, 11.3)

All shareholders are entitled to attend and vote at general meetings in person or by proxy. The rules for the appointment of proxies, including information that the voting will be conducted by way of poll, are set out in the notice of general meetings. In accordance with the Company's Constitution, shareholders who are not relevant intermediaries may appoint not more than two proxies each to attend, speak and vote at general meetings in their absence. In the case of shareholders who are relevant intermediaries, more than two proxies each may be appointed. The proxy forms must be deposited at such place or places specified in the notice or documents accompanying the notice convening the general meetings at least seventy-two (72) hours before the time set for the general meetings.

The Company provides for separate resolutions at general meetings on each substantial issue, including treating the election/re-election of each Director as a separate subject matter. Detailed information on each item in the AGM agenda is provided in the explanatory notes to the notice of AGM.

At general meetings of the Company, shareholders are given the opportunity to communicate their views and encouraged to ask the Directors and Management questions regarding matters affecting the Group. The Board Chairman, the chairmen of all the Board Committees, certain members of the Senior Management team together with the EA attended the 2020 AGM and will endeavor to attend the 2021 AGM. All Directors, except Mr Stephen Ho who was appointed in August 2020, attended the 2020 AGM.

Voting at General Meetings (Provision 11.4)

Shareholders are given the opportunity to vote at general meetings either in person or in absentia by way of appointed proxy(proxyes). However, as the authentication of shareholder identity information and other related integrity issues remain a concern, the Company has decided, for the time being, not to implement voting in absentia by electronic means.

Pursuant to Rule 730A(2) of the Listing Manual, all resolutions to be proposed at the general meetings and at any adjournment thereof shall be put to the vote by way of poll.

In support of greater transparency and to allow for a more efficient voting system, the Company has been conducting electronic poll voting instead of by show of hands since its 2014 AGM (except for the 2020 AGM which was done by way of proxy votes) and would continue to do so in respect of all resolutions to be proposed at the 2021 AGM assuming that the Company is able to resume convening physical general meetings. With electronic poll voting assuming that the Company is able to resume convening physical general meetings, shareholders present in person or represented by proxy at the meeting will be entitled to vote on a 'one-share, one-vote' basis. The voting results of all votes cast in respect of each resolution will also be instantaneously displayed on-screen at the meeting. The detailed results setting out the number of votes cast for and against each resolution and the respective percentages would be announced via SGXNET after the 2021 AGM. The detailed procedures for the electronic poll voting would be explained at the AGM. An external firm which is independent of the firm appointed to undertake the electronic poll voting process, will be appointed as scrutineers for the AGM voting process.

Minutes of General Meetings (Provision 11.5)

The Company also maintains minutes of its general meetings, which include the key comments and queries raised by shareholders and the responses from the Board, Management and/or the EA. The minutes of general meetings are available on the Company's website, and the Company will also furnish the general meeting minutes to any shareholder upon request.

2020 AGM and 2021 AGM

In view of the COVID-19 situation, the 2020 AGM was convened and held by electronic means on 18 June 2020 pursuant to the COVID-19 (Temporary Measures) (Alternative Arrangements for Meetings for Companies, Variable Capital Companies, Business Trusts, Unit Trusts and Debenture Holders) Order 2020 (the "**Order**"). Alternative Arrangements relating to attendance at the AGM via electronic means (including arrangements by which the meeting can be electronically accessed via live audio-visual webcast or live audio only stream), submission of questions to the Chairman of the Meeting in advance of the AGM, addressing of substantial and relevant questions prior to the AGM and voting by appointing the Chairman of the Meeting as proxy at the AGM, were put in place for the 2020 AGM. The mode of the convening and conduct of the 2021 AGM are dependent on the COVID-19 situation in Singapore nearer the date of the 2021 AGM. Shareholders would be notified by the Company in advance of the 2021 AGM.

Dividend Policy (Provision 11.6)

The Company has formalized a dividend policy which aims to pay dividends to shareholders at least once a year, balancing returns to shareholders with prudent capital management and consistent with the Company's overall governing objective of maximising shareholder value over time. Before proposing any dividends, the Board will consider a range of factors, including the Group's results of operations, long-term and short-term capital requirements, current balance sheet, future investment plans and the general business conditions and other macro environment factors. The Board will review the dividend policy from time to time and reserves the right to modify, amend and update the policy.

The Company aims to maintain a strong capital position to ensure market confidence, to support its on-going business and to meet the expectations of its stakeholders.

PRINCIPLE 12: ENGAGEMENT WITH SHAREHOLDERS

The Board provides shareholders with periodic financial results in accordance with the timelines prescribed in the Listing Manual.

Following the amendments to Rule 705(2) of the Listing Manual of SGX-ST, which took effect on 7 February 2020, the Company has ceased to release announcements of the Group's quarterly unaudited financial statements. Commencing FY 2020, results for the first half year ("**1H**") are released to shareholders within 45 days of the end of 1H whilst the annual results are released within 60 days from the financial year end. In presenting the Group's annual and 1H results, the Board aims to provide shareholders with a balanced and understandable assessment of the Group's performance and financial position with a commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which it operates.

For the financial year under review, the CEO and the then Corporate Controller, now the Deputy CFO, not being identified as the Company's KMP (in the absence of the CFO) provided assurance to the ARC and the Board on the integrity of the 1H unaudited financial statements. The CEO and the then Corporate Controller also received similar representation letters from the various business units within the Group. The Board in turn provided a negative assurance confirmation in respect of the unaudited financial statements for 1H in accordance with the regulatory requirements.

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The Company ensures that shareholders are notified of all material information in an accurate and timely manner. Should there be an inadvertent disclosure made to a select group, the Company will release the same information as promptly as possible via SGXNET. The Company notifies its investors in advance of the date of release of its financial results via SGXNET. The Company's periodic financial results are announced within the mandatory period. The financial statements and other presentation materials presented at the Company's general meetings, including material and price-sensitive information, are disseminated and publicly released via SGXNET on a timely basis. All shareholders of the Company receive the annual report of the Company and the notice of AGM. The Company had published the notice of its 2020 AGM on its corporate website and also released the same via SGXNET in accordance with the Order which sets out the Alternative Arrangements in respect of, *inter alia*, general meetings of companies and also the requirement for all notices of general meeting of issuers to be published on SGXNET and, if available, the issuer's corporate website.

Shareholder Communication (Provisions 12.1 and 12.2)

The Company has in place an investor relations ("IR") policy (available on the Company's website) which outlines the principles and framework for the Company to provide investors, analysts and other IR stakeholders with balanced, clear and pertinent information on matters pertaining to and/or affecting the Group. Shareholders and investors can contact the Company or access information on the Company at its website at www.hlasia.com.sg which provides, *inter alia*, information on the Board of Directors, key Management team, and the Group's key business units, Annual Reports, corporate announcements, press releases and financial results as released by the Company on SGXNET, and contact details of its IR.

Shareholders are also encouraged to attend the Company's general meetings. The Board Chairman and the chairmen of the respective Board Committees will also attend such meetings.

PRINCIPLE 13: ENGAGEMENT WITH STAKEHOLDERS

HLA has grown and diversified its portfolio within the manufacturing space over the decades, which has provided many opportunities to ingrain the importance of proactive and thoughtful engagement with its stakeholders. The stakeholders have been identified as those who are impacted by the Group's business and operations and those who similarly impact the Group's business and operations. The six key stakeholder groups identified are customers, employees, government agencies, local communities, shareholders and suppliers.

The Company acknowledges that success and long-term value across its operations would not be possible without the senior management teams' dedication and careful attention towards managing supplier, customer, government agency and community relationships. This has only strengthened with a combined knowledge across various industries, which has allowed the Group's businesses to both gain vital knowledge and adopt tested, effective policies and measures to evolve supplier collaboration, improve products' standards and enhance customer service. To achieve such standards, the Group's senior management teams adopt industry-specific to create supportive environments and set codes of ethical business conduct that allow employees to thrive and in turn, help cultivate long-term working relationships with all stakeholders that support our business activities.

Into the fifth year of its Sustainability Reporting journey, the Company periodically reviews its approach to ensure that the relevant sustainability challenges are addressed across the value chain in order to achieve meaningful engagement with various stakeholders, greater ownership in tracking our environmental footprint and even higher standards of health and safety in the workplace environment. This involves the continuous review of ESG issues and up-to-date practices surrounding to assess the evolving impact on every stakeholder group, reviewed and endorsed by the Board annually.

More details on HLA's approach to stakeholder engagement and materiality assessment are disclosed on pages 28 to 52 of this AR.

The Company has in place arrangements through a variety of channels including the Company's corporate website to engage with the stakeholders.

Corporate Values and Conduct of Business

The Board and Key Management are committed to conducting business with integrity and consistent with high standards of business ethics, and in compliance with all applicable laws and regulatory requirements. The Company has in place an internal code of business and ethical conduct crystallising the Company's business principles and practices with respect to matters which may have ethical implications. The code provides a communicable and understandable framework for staff to observe the Company's principles such as honesty, integrity, responsibility and accountability at all levels of the organisation and in the conduct of the Group's businesses in their relationships with customers, suppliers and amongst employees, including situations where there are potential conflicts of interests.

The code which incorporates the Anti-fraud, Anti-bribery and Anti-corruption Policy provides guidance on issues such as:

- conflicts of interest and the appropriate disclosures to be made;
- the Company's stance against corruption and bribery;
- compliance with applicable laws and regulations;
- compliance with the Company's policies and procedures, including those on internal controls and accounting;
- safeguarding and proper use of the Company's assets, confidential information and intellectual property rights, including the respect of the intellectual property rights of third parties;
- competition and fair dealing in the conduct of the Company's business, in its relationships with customers, suppliers, competitors and towards its employees; and
- prevention, detection and reporting of fraudulent or corrupt conduct through the Company's whistle-blowing channel.

In line with the Board's commitment to maintain high ethical standards which are integral to our corporate identity and business, the Company also has the following corporate policies and procedures in place:

- (i) Whistle-blowing Policy, which provides guidance to the Group's officers, employees and non-employees of the Group that may have any legitimate bona fide concerns about any possible improprieties in financial reporting or any other matters, the same may be raised without fear of reprisals in any forms, discriminating or adverse consequences; and
- (ii) Policy on transactions with IPs which provides guidance to the Group's officers and employees to conduct IPTs on an arm's length basis and on normal commercial terms consistent with its usual business practices and policies, not prejudicial to the interest of the Company and its minority shareholders and on terms which are not more favourable to the IP than those extended to other unrelated third parties under similar circumstances.

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Internal Code on Dealing in Securities

The Company has in place an internal code on securities trading which sets out the implications of insider trading and provides guidance and internal regulation with regard to dealings in the Company's securities by its Directors and officers. These guidelines prohibit all Directors and employees from dealing in the Company's securities (a) on short-term considerations, (b) while in possession of unpublished material price-sensitive information in relation to such securities, and (c) during the period commencing two weeks before the announcement of the Company's financial statements for each of the first three quarters of its financial year and one month before the date of announcement of the Company's full year financial statements (if the Company is required to announce its quarterly financial statements), and during the period commencing one month before the date of announcement of the Company's 1H and full year financial statements (if the Company is not required to announce its quarterly financial statements). The Directors and employees of the Company are notified in advance of the commencement of each 'closed period' relating to dealing in the Company's securities.

Rights Issue

In FY 2018, the Company had pursuant to a renounceable non-underwritten rights issue raised net proceeds of \$201.1 million. Between 13 March 2020 and 25 February 2021, the Company announced that an aggregate of \$115.7 million of the net proceeds had been utilised in accordance with the intended uses as stated in the Offer Information Statement dated 3 October 2018. Since then, no further utilization of the rights proceeds has been made, and other than previously announced, the remaining unutilized funds have been used in the interim to repay short-term revolving facilities and the balance has been deposited with financial institutions pending future deployment. The Company will make periodic announcements via SGXNET on the further deployment of the rights proceeds.